

PERAC AUDIT REPORT



Hingham Contributory Retirement System



JAN. 1, 2012 - DEC. 31, 2015



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chairman*

JOSEPH E. CONNARTON, *Executive Director*

Auditor SUZANNE M. BUMP | KATHLEEN M. FALLON | KATE FITZPATRICK | JAMES M. MACHADO | ROBERT B. MCCARTHY | JENNIFER F. SULLIVAN

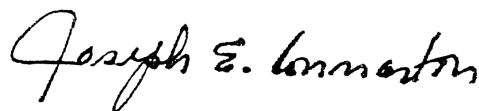
June 7, 2017

The Public Employee Retirement Administration Commission has completed an examination of the Hingham Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2012 to December 31, 2015. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception noted in the finding presented in this report.

In closing, I acknowledge the work of examiners Scott Henderson and Kevin McCarthy who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDING AND RECOMMENDATION

Refunds:

An examination of refunds indicated that interest was incorrect in cases where a member transferred in from another system and was then eligible for a refund with 3% interest. When the refunds were issued, the amounts from the prior systems included interest at the rate in §22(6)(b), rather than the 3% required by §11(1)(a).

Additionally, one member who left involuntarily was paid interest at 3% instead of the regular rate as required in §11(1)(a) . This resulted in an overpayment of approximately \$4,000.

Recommendation: In the cases involving a transfer, the member's Annuity Savings Fund history should be requested from the other system so that 3% interest can be applied for the entire career.

The member who was refunded too much should be contacted so the excess amount can be repaid.

Board Response:

In the case where a member transferred service into Hingham and subsequently left with less than 10 years of creditable service, the member should have received 3% interest on their accumulated total deductions. In order to avoid this in the future, the board will request the Annuity Savings Fund history so that the 3% interest can be applied for the entire career. The member who was refunded too much interest was contacted by certified mail on two separate occasions.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,			
	2015	2014	2013	2012
Net Assets Available For Benefits:				
Cash	\$524,468	\$739,384	\$359,477	\$479,785
Pooled Domestic Equity Funds	25,796,887	26,747,109	27,828,121	20,830,614
Pooled International Equity Funds	13,934,235	13,788,775	14,324,730	11,533,137
Pooled Domestic Fixed Income Funds	17,169,704	18,490,574	33,006,301	34,000,257
Pooled International Fixed Income Funds	8,557,766	9,021,991	0	0
Pooled Alternative Investment Funds	2,214,585	935,300	385,727	123,740
Pooled Real Estate Funds	11,014,578	9,892,844	5,064,615	4,595,609
Pooled International Balanced Funds	9,413,329	10,836,372	3,642,122	3,694,974
Hedge Funds	4,734,093	4,823,813	4,568,444	4,059,362
PRIT Cash Fund	40	20,030	22	24
PRIT Core Fund	2,100,160	1,734,165	2,377,354	2,162,769
Accounts Receivable	123,874	112,697	132,802	107,983
Accounts Payable	(13,324)	(14,215)	(8,397)	(18,512)
Total	<u>\$95,570,393</u>	<u>\$97,128,837</u>	<u>\$91,681,316</u>	<u>\$81,569,742</u>
Fund Balances:				
Annuity Savings Fund	\$25,706,050	\$24,791,806	\$23,746,028	\$21,661,106
Annuity Reserve Fund	6,463,632	5,841,265	5,656,032	5,991,257
Pension Fund	4,572,100	4,975,373	4,792,910	4,625,050
Military Service Fund	5,548	14,526	14,511	14,497
Expense Fund	0	0	0	0
Pension Reserve Fund	<u>58,823,064</u>	<u>61,505,868</u>	<u>57,471,835</u>	<u>49,277,831</u>
Total	<u>\$95,570,393</u>	<u>\$97,128,837</u>	<u>\$91,681,316</u>	<u>\$81,569,742</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2012)	\$20,037,826	\$6,030,253	(\$70,369)	\$14,482	\$0	\$47,393,950	\$73,406,142
Receipts	2,837,003	179,273	4,126,218	14	357,158	8,100,393	15,600,059
Interfund Transfers	(790,392)	790,392	6,216,511	0	0	(6,216,511)	0
Disbursements	(423,330)	(1,008,661)	(5,647,310)	0	(357,158)	0	(7,436,459)
Ending Balance (2012)	21,661,106	5,991,257	4,625,050	14,497	0	49,277,832	81,569,742
Receipts	2,907,840	175,881	4,478,816	15	421,601	9,684,733	17,668,885
Interfund Transfers	(573,906)	573,906	1,490,729	(0)	0	(1,490,729)	0
Disbursements	(249,012)	(1,085,012)	(5,801,685)	0	(421,601)	0	(7,557,310)
Ending Balance (2013)	23,746,028	5,656,032	4,792,910	14,511	0	57,471,835	91,681,317
Receipts	2,741,097	174,042	4,424,383	15	486,922	5,786,249	13,612,707
Interfund Transfers	(1,196,218)	1,161,488	1,786,946	0	0	(1,752,217)	0
Disbursements	(499,101)	(1,150,298)	(6,028,866)	0	(486,922)	0	(8,165,187)
Ending Balance (2014)	24,791,806	5,841,265	4,975,373	14,526	0	61,505,868	97,128,838
Receipts	2,896,649	188,508	4,613,244	15	546,665	(1,242,013)	7,003,066
Interfund Transfers	(1,697,623)	1,711,809	1,435,597	(8,992)	0	(1,440,791)	0
Disbursements	(284,782)	(1,277,950)	(6,452,114)	0	(546,665)	0	(8,561,510)
Ending Balance (2015)	\$25,706,050	\$6,463,632	\$4,572,100	\$5,548	\$0	\$58,823,064	\$95,570,394

STATEMENT OF RECEIPTS

FOR THE PERIOD ENDING DECEMBER 31,				
	2015	2014	2013	2012
Annuity Savings Fund:				
Members Deductions	\$2,663,997	\$2,557,366	\$2,374,427	\$2,230,760
Transfers from Other Systems	110,382	125,376	458,710	478,110
Member Make Up Payments and Re-deposits	53,890	7,851	35,472	77,765
Member Payments from Rollovers	31,387	19,913	6,048	27,335
Investment Income Credited to Member Accounts	<u>36,993</u>	<u>30,591</u>	<u>33,183</u>	<u>23,034</u>
Sub Total	<u>2,896,649</u>	<u>2,741,097</u>	<u>2,907,840</u>	<u>2,837,003</u>
Annuity Reserve Fund:				
Investment Income Credited to the Annuity Reserve Fund	<u>188,508</u>	<u>174,042</u>	<u>175,881</u>	<u>179,273</u>
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	151,300	151,854	144,745	132,142
Pension Fund Appropriation	89,666	90,070	288,166	80,674
Pension Fund Appropriation	4,372,278	4,182,459	4,045,905	3,913,402
Recovery of 91A Overearnings	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>4,613,244</u>	<u>4,424,383</u>	<u>4,478,816</u>	<u>4,126,218</u>
Military Service Fund:				
Investment Income Credited to the Military Service Fund	<u>15</u>	<u>15</u>	<u>15</u>	<u>14</u>
Expense Fund:				
Investment Income Credited to the Expense Fund	<u>546,665</u>	<u>486,922</u>	<u>421,601</u>	<u>357,158</u>
Pension Reserve Fund:				
Federal Grant Reimbursement	34,868	30,656	43,787	52,322
Interest Not Refunded	5,027	1,256	5,769	1,911
Excess Investment Income	<u>(1,281,908)</u>	<u>5,754,337</u>	<u>9,635,177</u>	<u>8,046,160</u>
Sub Total	<u>(1,242,013)</u>	<u>5,786,249</u>	<u>9,684,733</u>	<u>8,100,393</u>
Total Receipts, Net	<u>\$7,003,066</u>	<u>\$13,612,707</u>	<u>\$17,668,885</u>	<u>\$15,600,059</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,				
	2015	2014	2013	2012
Annuity Savings Fund:				
Refunds to Members	\$176,851	\$198,210	\$126,734	\$55,441
Transfers to Other Systems	<u>107,930</u>	<u>300,891</u>	<u>122,278</u>	<u>367,889</u>
Sub Total	<u>284,782</u>	<u>499,101</u>	<u>249,012</u>	<u>423,330</u>
Annuity Reserve Fund:				
Annuities Paid	1,277,950	1,141,266	1,064,733	1,008,661
Option B Refunds	<u>0</u>	<u>9,031</u>	<u>20,279</u>	<u>0</u>
Sub Total	<u>1,277,950</u>	<u>1,150,298</u>	<u>1,085,012</u>	<u>1,008,661</u>
Pension Fund:				
Pensions Paid:				
Regular Pension Payments	5,336,363	4,935,794	4,664,883	4,544,586
Survivorship Payments	269,781	250,353	248,533	228,269
Ordinary Disability Payments	28,916	47,147	76,475	66,359
Accidental Disability Payments	351,429	330,842	326,863	322,895
Accidental Death Payments	234,266	230,867	236,144	237,704
Section 101 Benefits	26,303	25,411	15,905	27,682
3 (8) (c) Reimbursements to Other Systems	129,877	124,883	123,904	121,203
State Reimbursable COLA's Paid	<u>75,179</u>	<u>83,569</u>	<u>108,979</u>	<u>98,613</u>
Sub Total	<u>6,452,114</u>	<u>6,028,866</u>	<u>5,801,685</u>	<u>5,647,310</u>
Expense Fund:				
Salaries	82,790	79,847	79,554	76,427
Legal Expenses	0	0	1,700	27,485
Travel Expenses	22	79	945	592
Administrative Expenses	6,200	8,602	8,891	6,203
Actuarial Services	3,500	8,100	600	8,600
Accounting Services	9,704	10,324	10,242	10,268
Education and Training	753	400	1,617	1,763
Furniture and Equipment	0	445	0	0
Management Fees	375,801	312,286	243,813	171,945
Consultant Fees	40,000	40,000	48,716	47,650
Service Contracts	22,405	21,495	20,430	1,143
Fiduciary Insurance	<u>5,490</u>	<u>5,344</u>	<u>5,091</u>	<u>5,083</u>
Sub Total	<u>546,665</u>	<u>486,922</u>	<u>421,601</u>	<u>357,158</u>
Total Disbursements	<u>\$8,561,510</u>	<u>\$8,165,187</u>	<u>\$7,557,310</u>	<u>\$7,436,459</u>

INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,				
	2015	2014	2013	2012
Investment Income Received From:				
Cash	\$67	\$84	\$95	\$203
Pooled or Mutual Funds	<u>2,595,024</u>	<u>2,690,695</u>	<u>2,321,580</u>	<u>2,323,002</u>
Total Investment Income	<u>2,595,091</u>	<u>2,690,778</u>	<u>2,321,675</u>	<u>2,323,206</u>
Plus:				
Realized Gains	3,231,495	3,297,148	3,481,041	1,967,735
Unrealized Gains	<u>11,479,432</u>	<u>10,014,520</u>	<u>11,512,742</u>	<u>9,431,901</u>
Sub Total	<u>14,710,928</u>	<u>13,311,668</u>	<u>14,993,782</u>	<u>11,399,636</u>
Less:				
Realized Loss	(1,120,591)	(174,904)	(271,285)	(193,223)
Unrealized Loss	<u>(16,695,155)</u>	<u>(9,381,636)</u>	<u>(6,778,316)</u>	<u>(4,923,980)</u>
Sub Total	<u>(17,815,746)</u>	<u>(9,556,540)</u>	<u>(7,049,601)</u>	<u>(5,117,203)</u>
Net Investment Income	<u>(509,728)</u>	<u>6,445,906</u>	<u>10,265,857</u>	<u>8,605,640</u>
Income Required:				
Annuity Savings Fund	36,993	30,591	33,183	23,034
Annuity Reserve Fund	188,508	174,042	175,881	179,273
Military Service Fund	15	15	15	14
Expense Fund	<u>546,665</u>	<u>486,922</u>	<u>421,601</u>	<u>357,158</u>
Total Income Required	<u>772,180</u>	<u>691,569</u>	<u>630,679</u>	<u>559,479</u>
Net Investment Income	<u>(509,728)</u>	<u>6,445,906</u>	<u>10,265,857</u>	<u>8,605,640</u>
Less: Total Income Required	<u>772,180</u>	<u>691,569</u>	<u>630,679</u>	<u>559,479</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>(\$1,281,908)</u>	<u>\$5,754,337</u>	<u>\$9,635,177</u>	<u>\$8,046,160</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2015		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$524,468	0.5%
Pooled Domestic Equity Funds	25,796,887	27.0%
Pooled International Equity Funds	13,934,235	14.6%
Pooled Domestic Fixed Income Funds	17,169,704	18.0%
Pooled International Fixed Income Funds	8,557,766	9.0%
Pooled Alternative Investment Funds	2,214,585	2.3%
Pooled Real Estate Funds	11,014,578	11.5%
Pooled International Balanced Funds	9,413,329	9.9%
Hedge Funds	4,734,093	5.0%
PRIT Cash Fund	40	0.0%
PRIT Core Fund	<u>2,100,160</u>	<u>2.2%</u>
Grand Total	<u>\$95,459,844</u>	<u>100.0%</u>

For the year ending December 31, 2015, the rate of return for the investments of the Hingham Retirement System was -0.49%. For the five-year period ending December 31, 2015, the rate of return for the investments of the Hingham Retirement System averaged 6.31%. For the 31-year period ending December 31, 2015, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Hingham Retirement System was 9.01%.

The composite rate of return for all retirement systems for the year ending December 31, 2015 was 0.91%. For the five-year period ending December 31, 2015, the composite rate of return for the investments of all retirement systems averaged 7.49%. For the 31-year period ending December 31, 2015, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.14%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Hingham Retirement System voted in 2011 to invest all of the system's assets with the PRIT fund. As a result of that motion, the supplemental investment regulations submitted and previously approved by the Public Employee Retirement Administration Commission were effectively rescinded.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Hingham Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 104 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the State Police. The other 3 classes are as follows:

Group 1:

General employees, including clerical, administrative, technical and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6% after achieving 30 years of creditable service.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A person who became a member before April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2.

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group 1, or
- attainment of age 55 with 10 years of service if classified in Group 2, or
- attainment of age 55 if classified in Group 4.

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year (or five year as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17). In addition, regular compensation will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.
- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.
- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.
- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .125% reduction is applied for each year of age under the maximum age for the member's group.

DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 70½.

NOTES TO FINANCIAL STATEMENTS (Continued)

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s. 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”. “Maximum age” applies only to those employees classified in Group 4 who are subject to mandatory retirement.

Retirement Allowance: For persons who became members prior to April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$846.12 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$846.12 per year, per child (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries while in the performance of his duties that results in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death. In addition, an eligible family member may receive a one-time payment of \$150,000.00 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

NOTES TO FINANCIAL STATEMENTS (Continued)

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is \$9,000. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is \$12,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4, whose death occurred prior to the member's minimum superannuation retirement age, the benefit shall be calculated using an age 55 age factor. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000 unless the retirement system has accepted the local option increasing this minimum annual allowance to \$6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase (COLA) for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. Only a certain portion of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, Section 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of \$1,000. For many years the COLA base was calculated based upon the first \$12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. Each increase in the base must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

NOTES TO FINANCIAL STATEMENTS (Continued)

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who is has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system. In certain circumstances, if a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-rata may not be undertaken. This is because such a person may receive a separate retirement allowance from each system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

Cash accounts are considered to be funds on deposit with banks and are available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23(2) generally govern the investment practices of the system. The Board retains an investment consultant to closely monitor the implementation and performance of their investment strategy and advise them of the progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

Operating expenses include the ordinary and necessary cost of investment and professional services and the other miscellaneous administrative expenses of the system.

NOTES TO FINANCIAL STATEMENTS (Continued)

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Hingham Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

Membership:

September 30, 2009:

If a seasonal, temporary and/or intermittent employee later becomes a permanent member of the Hingham Contributory Retirement System, that employee would be allowed to purchase service for that period of employment pursuant to G.L. c.32, § 4(a) and any service granted as a result of such purchase would be included in calculating the allowance payable.

December 2, 2005:

The following regulation is applicable to and mandatory for all current and future employees of the Town of Hingham, Hingham Municipal Light Plant, Hingham Housing Authority and the Hingham School Department, excluding School Department employees who are eligible for membership in the Massachusetts Teacher's Retirement System:

- Employees regularly scheduled to work twenty (20) or more hours per week shall join the Hingham Contributory Retirement System.
- Employees working part-time and/or less than twenty (20) hours per week are not eligible to join the Hingham Contributory Retirement System.
- Any active or inactive member who becomes a temporary, intermittent, or seasonal employee shall continue to be a member of the Retirement System.
- Membership date will be based upon commencement of regularly scheduled twenty (20) hours or more of service to the member units.

December 28, 1992:

Full-time employment shall be defined as 35 hours per week for administrative, clerical and library employees (32 hours per week for certain library employees); 40 hours per week for custodians, laborers and hourly rated employees; 42 hours per week for uniformed employees of the fire department and four consecutive eight hour days followed by two consecutive days off duty for uniformed employees of the police department.

A part-time employee hired on or after January 4, 1993 and working 20 or more hours per week may elect to join the Retirement System upon completion of any probationary period. If such employee elects to join the defined contribution plan (PEBSCO) at the time of hire in lieu of joining the Retirement System, such employee shall not be eligible to join the Retirement System until after two years of membership in such plan.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Part-time seasonal, part-time temporary and part-time intermittent employees shall not be eligible for membership in the Retirement System.

November 27, 1990:

To require full-time employment as a criteria for membership in the Retirement System.

Full-time employment is defined as 35 hours per week for administrative, clerical and library employees; 40 hours per week for custodians, laborers and hourly rated employees; 42 hours per week for uniformed employees of the fire department. The work schedule for uniformed members of the police department shall be four consecutive 8 hour days on duty followed by 2 consecutive days off duty. School bus drivers who work a minimum of 25 hours per week when school is in session shall be included. Any employee who works full-time for eight or more consecutive months per year shall be eligible.

If a full-time member in service of the Retirement System on October 1, 1990 becomes a part-time employee at any time after October 1, 1990, he or she may remain a members of the Retirement System.

The above stated policy applies to all employees hired by the town of Hingham on or after October 1, 1990.

December 18, 1984:

Part-time employees who are employed for at least 34 consecutive weeks of not less than 24 hours each week, in every calendar year, must become members of the Retirement System.

Creditable Service:

December 2, 2005:

The following regulation is applicable to and mandatory for all current and future employees of the Town of Hingham, Hingham Municipal Light Plant, Hingham Housing Authority and the Hingham School Department, excluding School Department employees who are eligible for membership in the Massachusetts Teacher's Retirement System:

- All full-time/part-time employees having been regularly scheduled and worked twenty (20) or more hours per week will receive one month of creditable service for each full calendar month in which the employee is receiving regular compensation for said service.
- In addition, Hingham School Department employees whose employment requires them to work only 10 months (September 1 - June 30), shall receive one month of creditable service for each full month the employee received regular compensation, with 10 months being the equivalent of one year of creditable service. Said employees shall be granted one (1) full year

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

of service credit if they return to that position the following September. They shall be granted credit only for the months worked if they do not return after summer break.

Buybacks/Make-Ups/Re-Deposits:

December 2, 2005

The following regulation is applicable to and mandatory for all current and future employees of the Town of Hingham, Hingham Municipal Light Plant, Hingham Housing Authority and the Hingham School Department, excluding School Department employees who are eligible for membership in the Massachusetts Teacher's Retirement System:

- Creditable service may be purchased one of three ways:
 1. Lump sum payment.
 2. Three equal payments distributed over the three (3) consecutive months.
 3. Via payroll deductions paid over a period not to exceed five (5) years.
- Creditable Service buyback payments must commence within 30 days of the date of acceptance by the Board. Regular interest (1/2 of the actuarial assumed interest rate) will accrue on any principal balance remaining on December 31st of each calendar year.
- Creditable service for the purposes of buybacks will be calculated based upon the following: (per calendar year)

Less than one (1) month	-	No creditable service
One (1) month to eleven (11) months	-	Month for month
Twelve (12) months	-	One (1) year

One (1) year of credit for ten (10) months of service may only be granted for school employees whose work schedule is the academic school year.

- When purchasing prior part-time service, if wage and/or salary documentation cannot be obtained, a W-2 form shall be supplied by the applicant. If the applicant cannot supply a W-2 form, he/she can request a hearing before the Retirement Board.
- For the purpose of calculating buyback "months", the Hingham Contributory Retirement System will review the period of part-time service and will allow a month for each calendar month wherein an average of twenty (20) hours or more per week of service was provided to the member unit. No partial month creditable service will be granted.
- For the purpose of calculating buyback "months" for a member whose work schedule is the academic school year, the Hingham Contributory Retirement System will prorate full months of service using the number of full months of actual service as determined above,

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

divided by the ten (10) months of the academic school year. The quotient will then be multiplied by twelve (12) to determine the number of months of creditable service to be allowed under the buyback.

- Employees may buyback their three (3) month probation period in accordance with and subject to, applicable laws and regulations.
- Upon written request, and proper documentation of prior service, reserve or permanent-intermittent police officers who were on the respective list, eligible for assignment to duty and subsequently appointed to the Hingham Police Department as a permanent full-time employee, shall be credited as full-time service up to a maximum of five (5) years without repayment to the system in accordance with M.G.L c. 32 §4(2)(b).
- Upon written request, and proper documentation of prior service, permanent-intermittent or call firefighters who were on the respective list, eligible for assignment to duty and subsequently appointed to the Hingham Fire Department as a permanent full-time employee, may purchase as full-time service up to a maximum of five (5) years in accordance with M.G.L c. 32 §4(2)(b).

Military Service Buyback:

December 2, 2005

The following regulation is applicable to and mandatory for all current and future employees of the Town of Hingham, Hingham Municipal Light Plant, Hingham Housing Authority and the Hingham School Department, excluding School Department employees who are eligible for membership in the Massachusetts Teacher's Retirement System:

- Employees who qualify as a "veteran" under G.L. c. 32, §4(1)(h) can purchase up to four (4) years of active service in the Armed Forces of the United States which will be added to their creditable service as a member of the retirement system.
- Any member who is a veteran must, within one hundred and eighty (180) days of being notified by the Hingham Retirement of his/her eligibility to purchase past service rendered in the armed forces of the United States, make application to purchase said service with the Board. Upon making such application, the member may purchase his/her past military service by paying an amount equal to ten percent (10%) of the regular annual compensation of the member when the member first entered their retirement system subject to provisions of M.G.L. c. 32, for each year the member wishes to purchase, not to exceed a maximum of four (4) years of service.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

- Military service may be purchased one of three ways:
 1. Lump sum payment.
 2. Three equal payments distributed over the three (3) consecutive months.
 3. Via payroll deductions paid over a period not to exceed five (5) years.
- Veterans with a legitimate hardship in purchasing their military time through the above methods can request a hearing before the Retirement Board.
- Military service buyback payments must commence within 30 days of the date of acceptance by the board. Regular interest (1/2 of the actuarial assumed interest rate) will accrue on any principal balance remaining on December 31st of each calendar year.
- If any member is laid-off or his/her position is eliminated due to budgetary constraints, the buyback period will be suspended, and in the event that the member is rehired or resumes employment with the Town of Hingham and is then again eligible to contribute to the System, he/she must resume the installment schedule in effect prior to the layoff or termination. If the member voluntarily leaves employment with the Town of Hingham or is terminated for cause, the buyback period will not be suspended, and the Board will grant creditable service on a prorated basis consistent with the total amount due on the buyback and the amount remitted to the Board prior to the termination of employment.
- In the event that a member transfers to another retirement system prior to the completion of the installment plan, the Board will determine the amount of service purchased based on the payments received, and accept liability for said service consistent with the provisions of M.G.L. c. 32, §3(8)(c).

December 18, 1984:

All part-time employees shall be granted one year membership service credit for each three years of part-time provisional or temporary employment.

Part-time employees:

Board of Registrars, Sealers of Weights and Measures, Child Clinic Doctor, School Dentist, School Doctor, Harbormaster, Town Hall Custodian.

Call firefighters were omitted from this definition because their creditable service is more specifically addressed in G.L. c. 32, § 4(2)(b).

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Travel Regulations:

July 17, 2002

The Hingham Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). Regulations available upon written request, and are also available on the PERAC website <http://www.mass.gov/perac/Hingham>.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Town Accountant who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Susan M. Nickerson, Chairperson

Appointed Member: Charles J. Cristello Term Expires: 6/26/18

Elected Member: William A. Powers Term Expires: 6/30/17

Elected Member: Jean M. Montgomery Term Expires: 7/29/19

Appointed Member: James P. Costello Term Expires: 6/22/18

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

Retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts. Fidelity insurance is the only required policy coverage under Ch. 32 §21 and §23 as well as 840 CMR 17.01. The policy is designed to cover specific intentional acts such as theft, fraud or embezzlement and also specify who commits such acts, most commonly employees of the system. This coverage reimburses the system for the losses it suffers as a result of its employees' actions. It does not insure the employees for their illegal acts. Statutorily required coverage is provided by the current fidelity insurance policy to a limit of \$1,000,000 with a \$10,000 deductible issued through Travelers Casualty and Surety Company. The system also has Fiduciary coverage to a limit of \$50,000,000 under a blanket policy issued through the Massachusetts Association of Contributory Retirement Systems.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the KMS Actuaries, LLC as of January 1, 2016.

The actuarial liability for active members was	\$75,455,949
The actuarial liability for retired members and beneficiaries was	72,360,087
The actuarial liability for inactive members was	<u>1,031,767</u>
The total actuarial liability was	\$152,634,171
System assets as of that date were (actuarial value)	<u>101,018,828</u>
The unfunded actuarial liability was	<u>\$51,615,343</u>
 The ratio of system's assets to total actuarial liability was	 66.2%
As of that date the total covered employee payroll was	\$30,179,469

The normal cost for employees on that date was 9.1% of payroll

The normal cost for the employer was 6.8% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 7.75% per annum
 Rate of Salary Increase: 6.00%-4.25% Group 1
 7.00%-4.75% Group 4

SCHEDULE OF FUNDING PROGRESS AS OF JANUARY 1, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2016	\$101,018,828	\$148,547,803	\$47,828,975	67.9%	\$30,179,469	158.5%
1/1/2014	\$88,826,629	\$130,408,659	\$41,582,030	68.1%	\$27,037,796	153.8%
1/1/2012	\$79,699,481	\$114,766,986	\$35,067,505	69.4%	\$23,273,757	150.7%
1/1/2010	\$72,255,686	\$104,411,776	\$32,156,090	69.2%	\$22,266,750	144.4%
1/1/2009	\$62,299,932	\$99,303,172	\$37,003,240	62.7%	\$21,715,745	170.4%
1/1/2008	\$75,680,784	\$94,518,253	\$18,837,469	80.1%	\$19,856,230	94.9%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Retirement in Past Years										
Superannuation	10	13	3	14	11	20	17	10	20	24
Ordinary Disability	0	0	0	0	0	0	0	1	0	0
Accidental Disability	0	0	0	0	0	0	0	0	0	0
Total Retirements	10	13	3	14	11	20	17	11	20	24
Total Retirees, Beneficiaries and Survivors	247	269	262	264	272	282	289	293	300	316
Total Active Members	516	533	559	553	560	538	571	620	657	654
Pension Payments										
Superannuation	\$3,209,790	\$3,358,045	\$3,460,129	\$3,701,797	\$4,022,208	\$4,311,895	\$4,544,586	\$4,664,883	\$4,935,794	\$5,336,363
Survivor/Beneficiary Payments	166,514	185,977	153,985	161,052	164,206	190,898	228,269	248,533	250,353	269,781
Ordinary Disability	89,887	69,320	74,182	64,697	63,372	64,764	66,359	76,475	47,147	28,916
Accidental Disability	444,242	406,939	372,126	322,970	291,299	288,204	322,895	326,863	330,842	351,429
Other	497,273	482,816	605,750	594,893	556,573	502,833	485,201	484,932	464,730	465,625
Total Payments for Year	\$4,407,706	\$4,503,097	\$4,666,172	\$4,845,409	\$5,097,658	\$5,358,594	\$5,647,310	\$5,801,685	\$6,028,866	\$6,452,114

PERAC

Five Middlesex Avenue | Suite 304

Somerville, MA | 02145

Ph: 617.666.4446 | Fax: 617.628.4002

TTY: 617.591.8917 | Web: www.mass.gov/perac